

Overview Of The Iowa Lottery Authority



Report to:
Legislative Fiscal Committee
Dec. 20, 2011
Terry Rich, CEO



Guiding Principles For Iowa's Lottery Found in State Law

- **Iowa Code Chapter 99G: "... the state should create a public instrumentality of the state in the form of a nonprofit authority known as the Iowa Lottery Authority with comprehensive and extensive powers to operate a state lottery in an entrepreneurial and businesslike manner ..."**
- **"... lottery games shall be operated and managed in a manner that provides continuing entertainment to the public, maximizes revenues and ensures that the lottery is operated with integrity and dignity and free from political influence ..."**



ILOT Budgeting

- 143-131-117 (ILOT Personnel FTEs) – Focus is on budget and checks and balances.
- CFO and Finance staff prepare annual budget based on several factors including known expenses, most current fiscal year results, economic outlook.
- CEO and Senior Staff review budget recommendation.
- CEO and Lottery Board of Directors modify and approve budget at September public meeting each year. Budget is reported through I-3 Accounting System.
- Budget is reviewed by CEO and Board in June each year to make modifications following legislative decisions for the year. Budget is again reported through I-3 Accounting System.



ILOT Guiding Principles

- Focus is on long-term proceeds vs. sales
- If ILOT spends \$1.00, we must sell \$4.00 to break even

But most of all ...

ILOT focus is on at least \$60 million annually in proceeds to vital state causes

Iowa Lottery Sales, Proceeds and Prizes

FY	Sales	Proceeds		Prizes
1986	85,031,583.52	27,631,613		39,269,612
1987	98,292,365.60	31,157,797		47,255,945
1988	128,948,560.00	40,090,157		65,820,798
1989	172,488,594.00	49,183,227		92,563,898
1990	168,346,888.00	50,535,644		90,818,207
1991	158,081,953.00	44,053,446	Casino gambling	86,382,329
1992	166,311,122.00	45,678,558		92,939,035
1993	207,192,724.00	56,092,638		116,820,274
1994	206,941,796.00	56,654,308		116,502,450
1995	207,648,303.00	58,159,175		112,563,375
1996	190,004,182.00	51,337,907	Slots at racetracks	102,820,278
1997	173,655,030.00	43,282,909		96,897,120
1998	173,876,206.00	42,947,928		96,374,445
1999	184,065,581.00	45,782,809		101,981,094
2000	178,205,366.00	44,769,519		98,392,253
2001	174,943,317.00	44,250,798		96,712,105
2002	181,305,805.00	48,165,186		99,996,233
2003	187,829,568.00	47,970,711		104,199,159
2004	208,535,200.00	55,791,763	Authority status	114,456,963
2005	210,669,212.00	51,094,109		113,455,673
2006	339,519,523.00	80,875,796	TouchPlay	122,258,603
2007	235,078,910.00	58,150,437		133,356,860
2008	249,217,468.00	56,546,118		144,669,575
2009	243,337,101.00	60,553,306		138,425,341
2010	256,255,637.00	57,907,066		150,453,787
2011	271,391,047.00	68,001,753		158,961,078
	5,057,173,042.11	1,316,664,678		2,734,346,490



Authority Powers

- Iowa Lottery Authority is self funded, monies of the state cannot be utilized to pay its expenses.
- Lottery Authority has limited powers to buy real estate, borrow money.
- Other issues: competitive bidding, retailer licensing, prizes, legal representation, law enforcement investigations, open records, advertising expenditure limit.



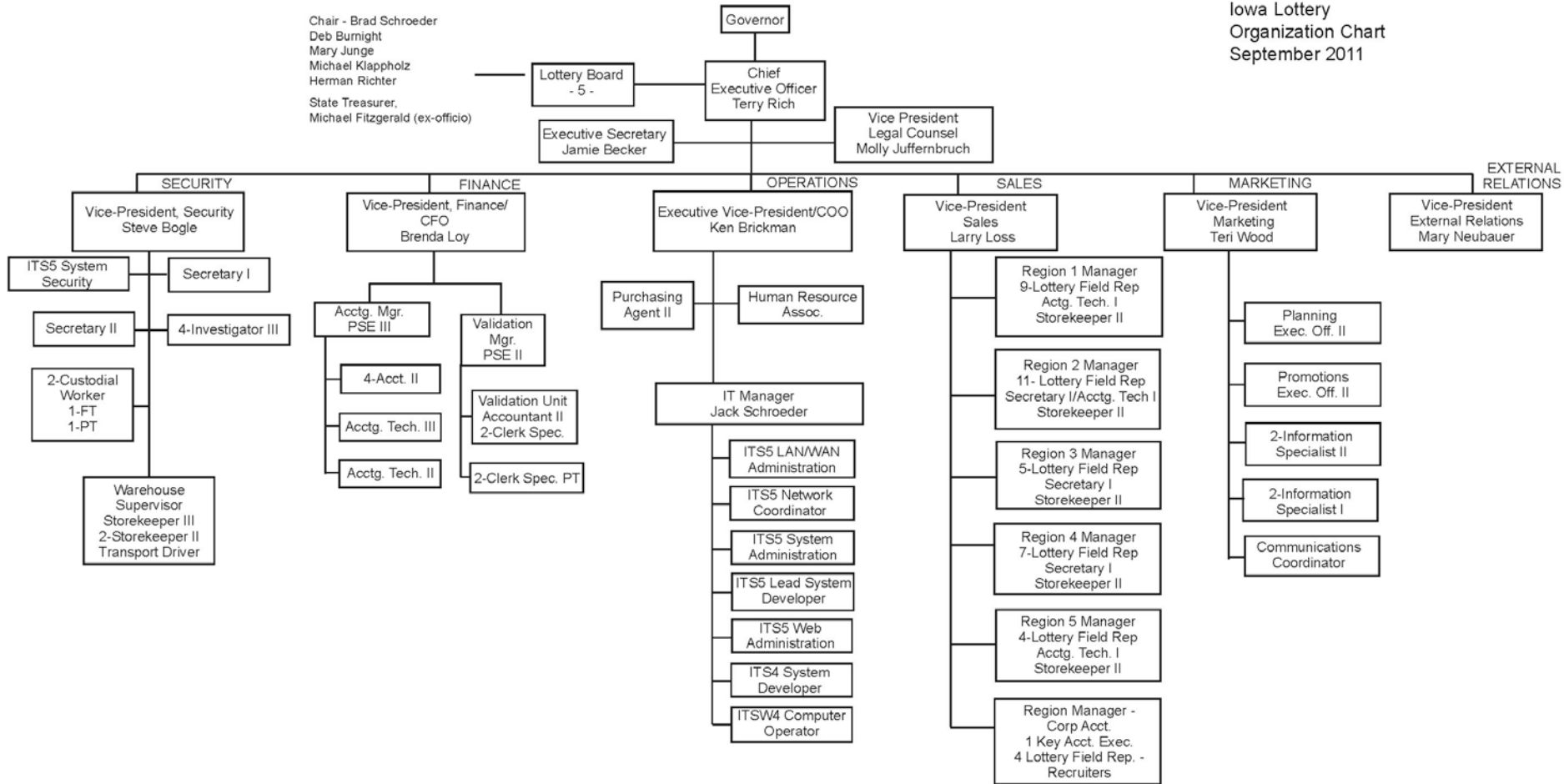
Personnel Budget Details

- Lottery CEO appointed by governor and confirmed by Senate, but serves a set four-year term.
- Lottery Authority personnel are public employees.
- With Lottery Board approval, CEO may designate some non-contract employees as key personnel. They are exempt from the merit system and report jointly to the CEO and Board.
- All other employees are employed in accordance with Iowa Code Chapters 19A and 20.

Iowa Lottery Authority

Iowa Lottery
Organization Chart
September 2011

Chair - Brad Schroeder
Deb Burnight
Mary Junge
Michael Klappholz
Herman Richter
State Treasurer,
Michael Fitzgerald (ex-officio)



Audits and Reports



- Lottery Authority reports quarterly and annually to the Governor, Auditor and Legislature.
- Authority also reports twice a year to Legislative Oversight Committees. The Authority comes under legislative review, but is not subject to appropriations process.
- Authority is audited annually.
- Lottery Authority proceeds benefit state programs.



Current Issues

- Integrity
- Gas prices
- Federalization of Internet gaming
- Lack of creativity in business development (U.S. Post Office)



FY 2012

1. Build on current success
2. Electronic point-of-sale displays to drive consumer purchases
3. ILOT Players Club - diversify player base
4. \$2 Powerball
5. Modernize delivery/staff realignment to focus on sales and merchandising



FY 2013

1. Continue current success
2. Diversify retailer base/modernize delivery
3. New national lottery game
4. Update vending machines
5. Cooperative efforts with state agencies

Budget for Lottery Fund

	2012 APPROVED BUDGET	2013 APPROVED BUDGET
<u>Resources</u>		
Lottery sales	271,400,000	277,100,000
Interest income	500,000	500,000
Application fees	5,000	5,000
Other	5,000	5,000
Total Resources	271,910,000	277,610,000
<u>Expenses and Change in Net Assets</u>		
Prizes	162,289,381	163,072,678
Retailer compensation	17,061,705	17,648,025
Advertising production and media purchases	10,856,000	11,084,000
Retailer Lottery system/Terminal communications	6,491,856	6,392,184
Instant/Pull-tab ticket expense & machine maintenance	3,259,167	3,400,000
Terminal equipment/Ticket dispensers/Vending machines	525,000	2,200,000
Courier delivery of instant tickets	506,272	683,000
Interest expense (ITVM/PTVM/Building)	39,408	245,000
Lottery operating expense	12,169,597	12,310,869
Increase (decrease) in net assets	48,341	48,341
Total Expenses and Change in Net Assets	213,246,727	217,084,097
<u>Proceeds</u>		
Proceeds Transfer to General Fund	56,163,273	57,725,903
Proceeds Transfer to Veterans Trust Fund	2,500,000	2,800,000
Total Proceeds Transfers	58,663,273	60,525,903
Total Expenses and Proceeds	271,910,000	277,610,000

Lottery Operations - Budget Detail

	2012 APPROVED BUDGET	2013 APPROVED BUDGET
Administrative payroll	9,711,869	9,711,869 *
Travel	400,000	420,000
Supplies	104,500	105,000
Printing	14,500	15,000
Postage	6,500	6,000
Communications	150,000	170,000
Rentals	300,000	300,000
Utilities	100,000	105,000
Professional fees	65,000	135,000
Outside services and repair	414,228	350,000
Data processing	40,000	50,000
Equipment	100,000	170,000
Reimbursement to state agencies	475,000	450,000
Depreciation	191,000	223,000
Other expenses	97,000	100,000
Total operating expenses	\$ 12,169,597	\$ 12,310,869

* 2013 Proposed Budget for "Administrative Payroll" does not include salary and benefit cost increases. Consistent with prior years, salary and benefit cost increases will be requested as a budget amendment in June 2012.

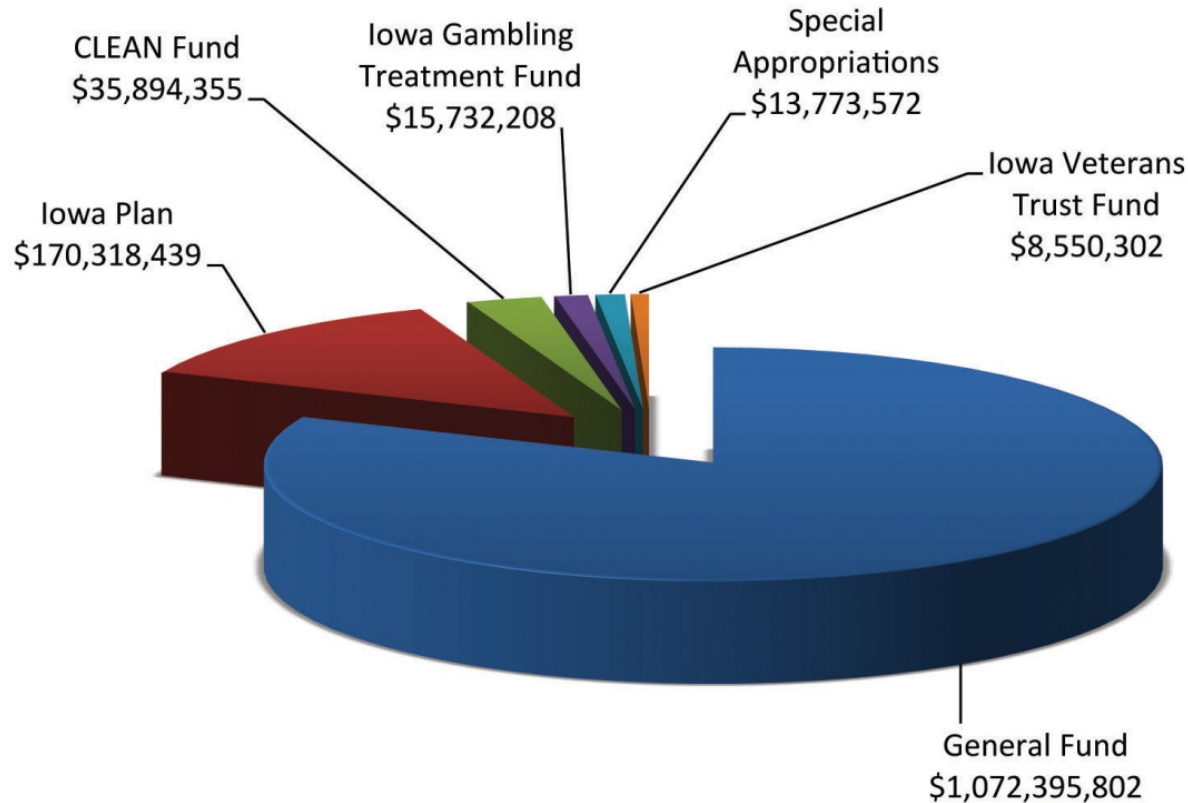
IOWA LOTTERY AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR FISCAL YEARS 2007 THROUGH 2011
FINAL

	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009	Fiscal Year 2008	Fiscal Year 2007
OPERATING REVENUES					
Instant-scratch ticket sales	\$165,329,031	143,759,258	136,268,555	\$137,917,848	\$125,147,976
Pick 3 sales	6,573,020	6,531,001	6,534,765	6,373,362	6,282,529
Powerball sales	47,124,656	59,190,012	58,220,203	63,761,024	61,548,520
Mega Millions sales	16,051,016	5,544,128	0	0	0
Hot Lotto sales	11,608,730	13,653,746	14,329,610	11,724,416	14,453,908
Raffle sales	0	789,200	0	1,425,460	0
Pick 4 sales	2,701,949	2,662,191	2,555,237	2,315,469	2,224,092
\$100,000 Cash Game sales	3,687,370	3,908,785	4,113,307	4,291,933	4,362,916
Touch Play Machine (Net Receipts)					(77,671)
Pull-tab sales	18,315,275	20,217,316	21,315,424	21,407,956	21,058,969
Application fees	5,575	3,975	3,680	5,150	6,325
Other revenue	138,133	22,147	65,449	47,962	147,426
Total operating revenues	271,534,755	256,281,759	243,406,230	249,270,580	235,154,990
OPERATING EXPENSES					
Scratch ticket prize expense	103,652,725	91,479,848	81,846,620	85,907,684	76,461,872
Pick 3 prize expense	3,894,422	3,958,003	3,834,735	3,763,710	3,710,127
Powerball prize expense	22,553,385	28,558,287	28,118,140	30,749,779	29,416,275
Mega Millions prize expense	8,365,976	2,879,811	0	0	0
Hot Lotto prize expense	5,608,729	6,610,476	7,015,713	5,668,710	7,097,545
Raffle prize expense	0	392,876	(10,500)	1,200,000	0
Pick 4 prize expense	1,596,054	1,544,018	1,473,587	1,352,661	1,202,769
\$100,000 Cash Game prize expense	1,745,257	2,005,333	2,271,476	2,525,366	2,212,777
Pull-tab prize expense	11,458,672	12,702,718	13,389,649	13,397,429	13,103,358
Promotional prize expense	85,858	322,417	485,921	104,236	152,137
Advertising/Publicity	6,647,468	7,539,052	7,007,617	7,307,529	6,277,829
Retailer compensation expense	17,284,432	16,109,637	15,298,641	15,650,431	14,674,744
Ticket expense	2,784,308	2,683,364	2,674,067	2,444,025	2,626,607
Vendor compensation expense	5,848,081	8,168,273	7,796,934	7,823,721	7,339,692
Salary and benefits	8,650,620	9,819,749	8,759,206	9,435,111	8,412,628
Travel	415,007	369,153	404,876	443,445	396,384
Supplies	110,465	104,863	110,739	107,592	97,168
Printing	13,830	14,477	9,582	17,737	22,485
Postage	5,112	6,166	4,718	4,528	44,942
Communications	518,708	562,025	568,096	574,029	544,149
Rentals	277,163	285,660	290,254	277,173	276,385
Utilities	103,438	98,468	103,240	114,292	91,013
Professional fees	118,062	165,833	121,965	144,953	91,137
Vending machine maintenance	526,196	488,697	489,809	492,495	492,576
Outside services & repairs	306,730	403,083	197,386	264,151	182,157
Data processing	46,670	37,700	40,929	37,998	38,380
Equipment	387,674	152,832	204,598	155,425	238,897
Reimbursement to other					
state agencies	432,878	455,697	435,976	500,235	350,385
Depreciation	117,508	864,963	1,403,051	1,407,901	1,415,964
Other	58,006	104,355	132,141	129,169	124,649
MUSL administrative expense	40,528	17,818	0	0	(32,454)
Total operating expenses	203,653,962	198,905,652	184,479,166	192,001,515	177,062,577

IOWA LOTTERY AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR FISCAL YEARS 2007 THROUGH 2011
FINAL

	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009	Fiscal Year 2008	Fiscal Year 2007
Operating income (loss)	67,880,793	57,376,107	58,927,064	57,269,065	58,092,413
Non-operating revenue (expense)					
Interest income	146,178	364,957	421,090	699,922	821,922
Interest expense	(42,418)	(45,702)	(48,986)	(109,467)	(175,147)
Income before transfers	67,984,553	57,695,362	59,299,168	57,859,520	58,739,188
Transfers to:					
Gambler's Treatment Program	0	0	(1,219,137)	(1,249,853)	(1,179,883)
Veterans Trust Fund	(3,105,371)	(2,661,554)	(2,783,377)	0	0
State General Fund	(64,896,382)	(55,245,512)	(56,550,792)	(55,296,265)	(56,970,554)
Total Transfers	(68,001,753)	(57,907,066)	(60,553,306)	(56,546,118)	(58,150,437)
Change in net assets	(17,200)	(211,704)	(1,254,138)	1,313,402	588,751
Net assets, beginning of period	4,201,939	4,413,643	5,667,781	4,354,379	3,765,628
Net assets, end of period	\$4,184,739	\$4,201,939	\$4,413,643	\$5,667,781	\$4,354,379

How Lottery Proceeds Help The State



Figures current through June 30, 2011